

CHAPTER 16  
IOWA EDUCATIONAL SAVINGS PLAN TRUST

**781—16.1(12D) Purpose.** The purpose of these rules is to provide for the administration and operation of the Iowa educational savings plan trust.

**781—16.2(12D) Definitions.** In addition to the terms defined in Iowa Code section 12D.1, the following terms apply to this chapter:

“*Academic period*” means one semester or one quarter or such other equivalent period as may be defined by the qualified institution of higher education.

“*Account*” means the account in the program fund established and maintained under the trust for a beneficiary.

“*Account balance*” means the fair market value of an account as of an accounting date selected by the program administrator, which shall be not more than 60 days prior to the date on which the event occurs which gives rise to the determination of account balance.

“*College savings Iowa*” is the name and logo registered under Iowa law to represent the Iowa educational savings plan trust. It is synonymous with Iowa educational savings plan trust.

“*Payments*” means the money paid by the participant to the trust under the participation agreement.

“*Penalty fee*” means the fee charged by the trust on cancellation of a participation agreement.

“*Program administrator*” means the treasurer of state.

“*Qualified higher education costs*” means tuition, fees, and the costs of books, supplies and equipment required for the enrollment or attendance of the beneficiary at a qualified institution of higher education. Room and board shall be treated as qualified higher education costs for a beneficiary, subject to maximum annual dollar amounts determined by the program administrator, if they are incurred during an academic period during which the beneficiary is enrolled or accepted for enrollment in a degree, certificate or other program that leads to a recognized educational credential (such as a bachelor’s degree or associate’s degree) awarded by a qualified institution of higher education. In addition, the beneficiary must be enrolled at least half time.

“*Qualified institution of higher education*” means an institution described in Section 481 of the federal Higher Education Act of 1965, which is eligible to participate in the United States Department of Education’s student aid programs. State universities in Iowa and other states qualify, as do community colleges and private accredited four-year and two-year colleges. Some vocational and technical schools qualify as well.

**781—16.3(12D) Forms and materials.** The following material shall be used to administer the Iowa educational savings plan trust.

“*College savings Iowa participation agreement*” means the form that the participant submits to the program administrator of the trust to identify the participant, beneficiary, and other information as may be requested by the program administrator. It shall be signed and dated by the participant to verify that the participant agrees to the terms and conditions of the program.

“*Prospectus*” means the document provided by the program administrator to describe the investments selected by the program administrator and to explain the nature of risk inherent in the investments.

**781—16.4(12D) Notices or requests.** The following form shall be used to administer the Iowa educational savings plan trust.

*“Cancel, Amend, or Use CSI Account Form”* means the form that a participant submits to the program administrator to suspend benefits under a participation agreement.

*“Cancel, Amend, or Use CSI Account Form”* means the form that a participant submits to the program administrator to terminate a participation agreement.

*“Cancel, Amend, or Use CSI Account Form”* means the form that a participant submits to the program administrator to transfer ownership rights of a college savings Iowa account to another person pursuant to Iowa Code section 12D.6(6).

*“Cancel, Amend, or Use CSI Account Form”* means the form that a participant submits to the program administrator to notify the administrator of the date benefits are to begin and level of benefits to be paid.

*“Cancel, Amend, or Use CSI Account Form”* means the form that a participant submits to the program administrator of the trust to request the substitution of a beneficiary.

**781—16.5(12D) Participant eligibility.** Iowa Code section 12D.3 provides that the trust may enter into participation agreements with participants to effectuate the purposes, objectives and provisions of the trust. This rule establishes the eligibility criteria for a participant.

**16.5(1)** A participant must be at least 18 years old and a resident of the United States.

**16.5(2)** A participant shall execute a participation agreement with the program administrator that specifies the terms and conditions under which the participant shall participate in the trust.

**16.5(3)** A participant shall, on signing a participation agreement, provide the program administrator with the participant’s social security number.

**781—16.6(12D) Beneficiary eligibility.** Iowa Code section 12D.3(2) provides that a beneficiary of a participation agreement may be designated from date of birth up to, but not including, the beneficiary’s eighteenth birthday. This rule establishes the eligibility criteria for a beneficiary.

**16.6(1)** A beneficiary may be a resident of any state, who, on the day the participation agreement is executed, is under 18 years of age.

**16.6(2)** A participant shall, on signing a participation agreement, agree to provide the program administrator upon request the beneficiary’s birth certificate or other official documents which verify the beneficiary’s age.

**16.6(3)** A participant shall, on signing a participation agreement, provide the program administrator a valid social security number for the beneficiary.

**781—16.7(12D) Payments and payment schedules.** Iowa Code section 12D.3(1) states that participation agreements may require participants to agree to invest a specific amount of money in the trust for a specific period of time for the benefit of a specific beneficiary, not to exceed \$2000 per beneficiary per year, adjusted annually to reflect increases in the consumer price index. This rule provides for implementation of this provision.

**16.7(1)** The program administrator will provide each participant a quarterly statement. Participants are allowed to pay installments monthly or at other intervals during the calendar year provided that each installment payment is made with a payment coupon provided to the Participant and further, provided that each installment is at least \$25. Installment payments of less than \$25 may be returned to the participant. Payments received from a person who has not entered into a participation agreement shall be returned or held until a participation agreement is submitted and approved.

**16.7(2)** The program administrator shall actuarially determine an account balance limit applicable to all accounts of beneficiaries with the same expected year of enrollment. No additional payments may be made on behalf of a beneficiary if the account balances of all accounts held for the beneficiary exceed the applicable account balance limit.

**16.7(3)** Beginning in the spring of 2000 and each spring thereafter, the program administrator shall determine the maximum amount that a participant may contribute on behalf of a beneficiary for the calendar year by applying the applicable inflation adjustment. The adjusted annual maximum shall be communicated to participants in college savings Iowa and the public in any reasonable manner determined by the program administrator.

**781—16.8(12D) Substitution or change of beneficiary.** Iowa Code section 12D.3(5) “a” provides that beneficiaries may be changed subject to the rules and regulations of the treasurer of state. This rule establishes the criteria for substituting one beneficiary for another.

**16.8(1)** At the time of the substitution, the substitute beneficiary must be an eligible beneficiary pursuant to rule 781—16.6(12D) and be a member of the family of the beneficiary being substituted as defined in subrule 16.8(3).

**16.8(2)** In the event a beneficiary admitted to an institution of higher education decides to permanently discontinue the beneficiary’s higher education and an account balance remains in college savings Iowa, the participant must, in order to avoid the imposition of the penalty and reporting to tax authorities, complete a new participation agreement for another eligible beneficiary who is a member of the prior beneficiary’s family and direct that the account balance of the first beneficiary’s account be “rolled over” to the new beneficiary’s account.

**16.8(3)** For purposes of determining who is a member of the family, a legally adopted child of an individual shall be treated as the child of such individual by blood. The terms “brother” and “sister” include a brother or sister by half blood. “Member of the family” means an individual who is related to the designated beneficiary described as follows:

- a.* Son or daughter, or a descendant of either;
  - b.* Stepson or stepdaughter;
  - c.* A brother, sister, stepbrother, or stepsister;
  - d.* The father or mother, or an ancestor of either;
  - e.* A stepfather or stepmother;
  - f.* A son or daughter of a brother or sister;
  - g.* A brother or sister of the father or mother;
  - h.* A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law;
- or
- i.* The spouse of the designated beneficiary or the spouse of any individual described in paragraphs “a” through “h” of this subrule.

**16.8(4)** A participant may request that a beneficiary be substituted by submitting to the program administrator the form entitled Cancel, Amend, or Use CSI Account Form. The request shall accompany evidence, as specified by the program administrator, that the proposed substitute beneficiary is a member of the family of the beneficiary.

**781—16.9(12D) Change of participant or account owner.** The participant is the initial owner of the account established under college savings Iowa and, as such, has the exclusive right to cancel the participation agreement or change the designated beneficiary.

**16.9(1)** A participant may transfer the participant's current ownership rights in an account to another eligible individual or to a minor beneficiary. To do so, the participant shall file the form entitled Cancel, Amend, or Use CSI Account Form with the program administrator.

**16.9(2)** A participant may also designate on the participation agreement a successor that shall succeed to the ownership of the account in the event of the death of the participant. A participant may change the designated successor by filing a new Cancel, Amend, or Use CSI Account Form with the program administrator.

**16.9(3)** In the event a participant or other account owner dies and has not designated a successor to the account, the following criteria will be used.

*a.* The designated beneficiary, if 18 years of age or older at the time of the participant's death, shall become the owner of the college savings Iowa account as well as remaining the beneficiary.

*b.* If the designated beneficiary is under the age of 18, account ownership will be transferred to the beneficiary's surviving parent or parents or other legal guardian.

**16.9(4)** The participant may name a successor to the account even though the successor may already have established or plans to establish a college savings Iowa account.

**781—16.10(12D) Payment of benefits and qualified distributions.** Iowa Code section 12D.3(3) provides that a participant's account balance shall be refunded to the participant, less endowment fund earnings, and less a refund penalty levied by the trust against account balance earnings, if any, in the event an account balance remains in the account for a 30-day period following the beneficiary's thirtieth birthday. This rule establishes the procedures for the payment of benefits.

**16.10(1)** The participant must initiate distributions for qualified costs. The participant must file the form entitled Cancel, Amend, or Use CSI Account Form with the program administrator. The form should be filed at least two months before the beneficiary's first day of class in the institution. The form will allow the participant to select the maximum to pay each period of enrollment. This amount will be used until the benefits are exhausted or until otherwise directed by the participant, whichever occurs first.

**16.10(2)** Upon submission of the Cancel, Amend, or Use CSI Account Form, the participant shall specify the level of benefits to be paid. The participant may elect distribution of an allotment of the account balance, calculated by dividing the account balance by the number of academic periods in the beneficiary's program of study, or a higher amount, which shall not exceed the beneficiary's qualified higher education costs for each academic period. The participant may adjust the level of benefits paid in any academic period by notifying the program administrator in writing.

**16.10(3)** Benefits will be paid in one of two ways once the Cancel, Amend, or Use CSI Account Form is filed with the program administrator.

*a.* Benefits will be paid directly to the institution of higher education when an invoice from the institution is provided to the program administrator. Benefits will then be paid in accordance with the Cancel, Amend, or Use CSI Account Form filed by the participant to the extent the amount invoiced by the institution is for qualified expenses.

*b.* Upon receipt of complete and legible documentation regarding the purpose, date, and amount of the payment, the program administrator will reimburse the participant or beneficiary. Again, the amount of benefits that will be paid must be in accordance with the Cancel, Amend, or Use CSI Account Form and to the extent the reimbursement is for qualified expenses. Failure on the part of the participant or beneficiary to provide documentation requested by the program administrator to verify the purpose, date, and amount of payment will result in the denial of the request for reimbursement.

**16.10(4)** Each distribution of benefits will be comprised partly of contributions and partly of earnings, based upon the same proportion that contributions and earnings make up the participant's account.

**16.10(5)** If, following the submission of a Cancel, Amend, or Use CSI Account Form, the beneficiary interrupts the beneficiary's attendance at an institution of higher education, the participant must submit a form entitled Cancel, Amend, or Use CSI Account Form.

Distribution of benefits shall begin after receipt by the program administrator of the form entitled Cancel, Amend, or Use CSI Account Form and shall continue throughout the beneficiary's period of enrollment at an institution of higher education or until the account balance has been exhausted, whichever occurs first.

**16.10(6)** If the beneficiary graduates from an institution of higher education and a balance remains in the beneficiary's account, the program administrator shall refund to the participant the balance of the payments and the earnings from the investments in the program fund remaining in the account unless directed by the participant to transfer the funds to another eligible beneficiary.

**16.10(7)** Funds that are refunded to a participant pursuant to this rule shall be reported to the appropriate taxing authorities for the tax year in which such refund is made.

**16.10(8)** For federal income tax purposes, that portion of a qualifying distribution that constitutes earnings must be included in the beneficiary's taxable income in the year in which it is distributed.

**781—16.11(12D) Nonqualified distributions and penalties.** Any account balance not used for the qualified higher education costs of a designated beneficiary or eligible substitute beneficiary, and not refunded to the account owner for reasons related to the death or disability of the beneficiary, or due to the beneficiary's receiving a scholarship, shall be refunded to the participant.

Any undistributed endowment fund earnings credited or earmarked to the account revert back to the endowment fund. For federal income tax purposes, that portion of a nonqualified distribution that constitutes earnings must be included in the participant's taxable income in the year in which it is distributed.

A participant may, however, transfer any remaining balance in one account to an existing or new account for another designated beneficiary by completing a new participation agreement with the program administrator.

**781—16.12(12D) Earnings in endowment fund.** Iowa Code section 12D.4(2) provides that each beneficiary for whom funds are saved under a participation agreement shall receive an interest in a portion of the investment income of the endowment fund of the trust. This rule provides for implementation of this provision.

**16.12(1)** Earnings from the endowment fund that are not transferred to the administrative fund shall be earmarked for use by the beneficiary of each participation agreement.

**16.12(2)** Annually, a pro-rata amount of endowment fund earnings shall be earmarked to each participant account. The pro-rata amount shall be based on the average daily balance of the account held on behalf of a beneficiary in the program fund compared to the average daily balance of the entire program fund during the year.

**16.12(3)** The earmarking of the endowment fund earnings for use by a beneficiary shall not constitute ownership of such interest on the part of any beneficiary or participant. Upon cancellation of a participation agreement for any reason, endowment fund earnings earmarked to an account shall revert back to the endowment fund.

**16.12(4)** Provided that donations have been made to the endowment fund, the annual statement provided to each participant shall disclose both the annual and cumulative amounts of endowment interest that have been earmarked for use by a beneficiary under a participation agreement.

**16.12(5)** When payment of benefits for the beneficiary begins under a participation agreement, earnings from the endowment fund that have been earmarked for use by the beneficiary shall be made available for higher education costs under the following procedure.

Endowment fund earnings, if any, shall be paid in the following manner. Once the Cancel, Amend, or Use CSI Account Form is submitted to the program administrator, the total amount earmarked for the account, adjusted annually to allow for contributions when the beneficiary is in attendance, shall be distributed in equal installments over the remaining estimated number of enrollment periods that are customarily required by the institution of higher education to graduate in the beneficiary's course of study.

**781—16.13(12D) Cancellation and payment of refunds.** Iowa Code section 12D.5 provides that any participant may cancel a participation agreement at will. This rule establishes the criteria for canceling a participation agreement and providing a refund.

**16.13(1)** A participant may at any time cancel a participation agreement, without cause, by submitting to the program administrator the form entitled Cancel, Amend, or Use CSI Account Form.

**16.13(2)** If the participation agreement is canceled, the participant is entitled to a refund. The refund shall be mailed or otherwise sent to the participant within 60 days after receipt by the program administrator of the form entitled Cancel, Amend, or Use CSI Account Form. The amount of the refund shall be determined according to the following criteria.

The participant shall receive the account balance less any endowment fund earnings earmarked to the account. Any endowment fund earnings earmarked to the account shall revert back to the endowment fund.

**16.13(3)** If a participation agreement is canceled as a result of the death of the beneficiary or disability of the beneficiary, the participant shall receive the account balance with no imposition of the penalty fee.

*a.* Before a cancellation and refund due to the death of a beneficiary is made, a participant must provide the trust a copy of the beneficiary's death certificate or other proof of death acceptable under state law.

*b.* Before a cancellation and refund due to the disability of a beneficiary is made, a participant must provide to the program administrator written certification from a qualified and licensed physician that the beneficiary is disabled and, as a result of such disability, cannot reasonably attend school.

**16.13(4)** To the extent that a participation agreement is canceled as a result of the beneficiary's being awarded a scholarship, as defined in Section 529 of the Internal Revenue Code, the participant shall receive the account balance, up to the amount of the scholarship, with no imposition of the penalty fee. To the extent that the refund exceeds the amount of the scholarship, the penalty fee shall be imposed on such excess.

Before a refund is made due to the beneficiary's receiving a scholarship that can be used at a qualified institution of higher education, a participant must provide the program administrator written documentation that verifies and describes the scholarship award.

**16.13(5)** Funds that are refunded to a participant pursuant to this rule shall be reported to the appropriate taxing authorities for the tax year in which such refund is made.

These rules are intended to implement Iowa Code sections 12D.1, 12D.2, 12D.4, and 12D.6 to 12D.11 and Iowa Code sections 12D.3 and 12D.5 as amended by 1999 Iowa Acts, Senate File 457.

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